Travel Journal: Getting to Know Foreign Investments

Emerging Trends

Once upon a time, the United States was considered an emerging market. In the late 1800s, British financiers, noting America's growth potential, invested in the companies that were building the nation's infrastructure, particularly the early railroad companies. In doing so, they were accepting more risk than they would have with investments in their own market. The United States, after all, was still maturing, and political and social change, as well as many other factors, could have made it a volatile investment market.

The same risk/reward characteristics apply to today's emerging markets, which are found in every corner of the globe. Because they are still maturing, they may have more room for growth than long-established markets, such as the United States. But because the road to maturity is not always a smooth one, there may be bumps along the way.

In general, emerging markets have three characteristics:

- Low or moderate personal incomes.
- Economies that are in the process of being industrialized.
- Financial infrastructures, including stock markets, that are still being developed.

A developing infrastructure is what may give an emerging market its growth potential. For example, in an emerging market an industry such as banking might be just beginning to establish itself and therefore have above-average growth potential.

Of course, you need to keep in mind that emerging market investments are generally suitable for patient investors with long-term time horizons. Emerging market stock prices can take dramatic swings, and it is essential that you have the time to ride them out.

Ongoing Opportunity

Developed markets typically have higher average incomes than emerging markets, well-established financial institutions and markets and modern infrastructures. Of course, they may still offer investors the potential for continued growth.

By the same token, like emerging markets, developed foreign markets may be subject to greater risks than domestic investments. Foreign markets may be less efficient, less liquid and more volatile than those in the United States. They are also subject to the effects of foreign currency fluctuations and differing regulations.

If you decide to build an international element into your investment portfolio, consider seeking professional guidance. Professional portfolio managers often have access to information that's not widely available, not to mention the time and experience required to track events in a variety of markets. Before expanding your portfolio beyond U.S. borders, contact a qualified financial professional who can help you prepare for this investment journey.

Action Step

If you are curious as to how foreign investing supports a portfolio or opportunities to participate in foreign investing as part of a financial plan, please give us a call and we would be happy to offer a complimentary consultation.